

**Jim Kasprzak Talking Points  
For  
Briefing on DEQ Funding Issues  
November 6, 2008  
Hannah Community Center, East Lansing, Michigan**

**DEQ Funding as a Percent of the Michigan Budget—(show funding slide)**

- The DEQ budget is less than 0.5 % of the total FY 2009 State General Fund appropriations of \$9.7 billion.
- The DEQ budget is only 0.8 % of the total FY 2009 Gross appropriation—all fund sources including Federal funds, School Aid Fund, etc.—of \$43.8 billion.
- At least one state legislator has called the DEQ budget a '*rounding error*' in the state budget.

**Funding Structure in the DEQ Budget—(show FY 2009 funding structure slide)**

- In FY 2009, DEQ funding sources are—
  - ▶ 13% General Fund
  - ▶ 49% State Restricted funds
  - ▶ 38% Federal funds
- In comparison, in FY 2002—the peak level of state General Fund support in the DEQ appropriations, DEQ funding sources were—
  - ▶ 28% General Fund
  - ▶ 35% State Restricted funds (fees, cleanup funds, bond funds)
  - ▶ 37% Federal funds

- This funding split represents approximately 1/3 of each funding source supporting the DEQ budget. While this split may or may not be ideal, it is far better than the current funding distribution in the DEQ budget.

**(Show DEQ Funding History slide)**

- General Fund support for DEQ has declined by 56% since FY 2002, after a \$13.5 million infusion of General Fund support in the FY 2009 budget in lieu of 11 fee increases.

NOTE: In FY 2007 before this General Fund support was added in lieu of fee increases, the DEQ fund sources were 9% GF-GP, 52% State Restricted funds, and 39% Federal funds , which represented a 67% decline in General Fund support for DEQ.

- **This significant reduction in General Fund support for DEQ has directly resulted in a greater reliance on fees to support DEQ programs.**

**Support for Rent, Department of Information Technology Support and DEQ Central Administration**

- With the significant loss of General Fund support in the DEQ budget, the DEQ programs supported with state restricted funds—fee-based programs, clean-up programs, etc.—now have to bear an equitable share of the program support cost of rent, Department of Information Technology support and DEQ central administration costs.
- Several of the larger DEQ restricted fund sources have provided a disproportionately large share of these program support costs

- None of the statutory DEQ fee schedules in place today nor the restricted funds that support contaminated site clean-up programs were structured to include funding for rent, Department of Information Technology support and DEQ central administration costs.
  - ▶ Rent includes the cost of DEQ occupied space in state-owned and privately leased facilities (several of the DEQ district offices).
  - ▶ Department of Information Technology support includes
    - ▣ computer desktop support,
    - ▣ state data network security, and
    - ▣ database application development and support costs.
  - ▶ DEQ central administration costs include the cost to provide
    - ▣ budgeting,
    - ▣ accounting,
    - ▣ invoicing and cash receipting for collecting the 53 DEQ fees,
    - ▣ purchasing,
    - ▣ facilities management,
    - ▣ internal audit, and
    - ▣ personnel management.
- The correct accounting approach to fund these costs is to spread the funding across all funding sources based on an equitable cost allocation methodology.
- Each of the fee proposals being presented today includes a factor to cover equitable costs of rent, Department of Information Technology support, and DEQ central administration.

- Without this fee revenue and in the absence of adequate General Fund support, other restricted fund sources will provide disproportionately large shares of funding for these costs that support all DEQ programs, placing an undue and inequitable burden on these restricted fund sources.
- I wish to make an important point here—
  - ▶ It is not desirable for the DEQ to be supported primarily as a fee-for-service organization. All Michigan residents benefit from the DEQ-administered environmental protection programs.
  - ▶ While you will hear me and the DEQ staff present the FY 2010 fee proposals, a broader base of funding support is appropriate to pay for both
    - ▣ DEQ programs and
    - ▣ the operational support costs of rent, information technology, and DEQ central administration.

### **Loss of Federal Funding Support**

- In addition, Federal Funding to DEQ has declined 9% since the peak in FY 2006. Federal funding is not keeping up with the on-going program support needs of the DEQ to manage federally delegated programs.

### **Loss of Purchasing Power in DEQ budget—*(show impact of inflation slide)***

- This next slide shows that inflation has taken its toll on the buying power of DEQ appropriations.

- ▶ Over the period of FY 1996 (the first full-year of DEQ operation) to FY 2009, the total DEQ appropriations actually have ***decreased by \$7.2 million or 2% in face value dollars.***
- ▶ Over the same period of FY 1996 – FY 2009, the inflation adjusted or real-dollar value of DEQ appropriations have ***lost \$143.6 million in purchasing power.***
- ▶ Saying it another way, the total DEQ budget should have grown by 39% since FY 1996, just to keep up with inflation, let alone the new federal and state responsibilities that DEQ has taken on.

### **FY 2010 DEQ Fee Increase Proposals—**

- In regard to FY 2010 budget planning and development, the State Budget Office has advised DEQ to assume that the \$13.5 million General Fund monies added in the FY 2009 budget in lieu of fee increases will remain in the FY 2010 base appropriation.
- In FY 2008 and FY 2009, the administration and the legislature supported additional General Fund monies for DEQ instead of enacting eight and eleven fee increases respectively in each year.
- Given the national financial and banking crisis and the extremely precarious sales and financial situation of the ‘big-three US auto manufacturers, there will be significant stress on state General Fund revenue collections both in the current fiscal year and in FY 2010 and beyond.
- The State Budget Office has asked state departments to develop targeted General Fund budget reductions for FY 2010, and most of

us expect a General Fund budget reduction via an Executive Order in FY 2009.

- As part of the FY 2010 budget, DEQ has developed fee increase proposals for seven existing programs that are dependent on fees as the primary source of support.—**(show fee increase proposals slide)**
  - ▶ Air Emissions Permit Fee—***last increased in 2001***
  - ▶ Land and Water Permit Fee—***last increased in 1989 or 1998***
  - ▶ Waste Reduction Fee—charge for hazardous waste disposal that supports pollution prevention programs-- ***not increased since establishment in 1987***
  - ▶ Solid Waste Surcharge Fee—***not increased since establishment in 2004***
  - ▶ Underground Storage Tank Fee—***not increased since establishment in 1988***
  - ▶ NPDES (National Pollution Discharge Elimination System) Permit Fee—sunsets 10/1/09—***not increased since establishment in 2004***
  - ▶ Storm Water Permit Fee—sunsets 10/1/09—***not increased since establishment in 2004***
- **These fee increase proposals total \$12.5 million**

#### **Funding for Contaminated Site-Cleanup Projects**

- DEQ has run out of money to address new Part 201 contaminated site cleanup and remediation projects. There is no funding in the FY

2009 budget for new sites, except for a \$4.0 million appropriation to handle emergency situations that may occur.

- Nor will there be there any funding available for new site work in the FY 2010 budget.
- The dollars available for cleanup and remediation site work in the CMI—Clean Michigan Initiative—bond funding, approved by Michigan citizens in 1998, has been fully appropriated, along with most of the funding for the other environmental and resource programs supported by the CMI bond. Very limited amounts of funding remain for brownfield loans, non-point source pollution grants and water quality monitoring.

**Funding for CMI 2 Bond Proposal on 2010 Ballot—(show 2008 Bond Proposal slide)**

- In the spring of 2008, DEQ developed and presented a CMI 2 Bond Proposal totaling \$1.3 Billion. The principal components of this bond proposal were:
  - ▶ Protect and Restore Our Great Lakes Waters--**\$390 million**
  - ▶ Cleanup and Redevelop Contaminated Sites--**\$820 million**
  - ▶ Land Stewardship Programs (MDA)--**\$90 million**
- Although this CMI 2 Bond Proposal was introduced in HB 6228, the timing last spring simply was not right for advancing this bond proposal to the 2008 General Election ballot.
- However, the very significant need for the funding identified in the CMI 2 Bond Proposal continues in each of the categories of the proposal.

- The DEQ intends to work toward developing a similar bond proposal for the 2010 general election ballot. There will be ample time for discussion and vetting this proposal.

### **Refined Petroleum Fund**

- The Refined Petroleum Fund revenue—7/8 cents on each gallon of refined petroleum products sold in Michigan—sunsets December 31, 2010.
- The Refined Petroleum Fund is the only source of revenue to address cleanup of the 4,500 leaking underground storage tanks currently identified with no liable responsible party to pay for the cleanup and remediation.

### **Breadth and Severity of the DEQ Funding Situation**

- Given the significant loss of General Fund support in the DEQ budget along with declining federal funding support, the DEQ has come to rely on fee-based and other restricted funding sources for primary funding of both programs and program support costs.
- Additionally, the funding for contaminated site cleanup and redevelopment is exhausted, with an enormous critical need remaining to be address, with no funding source in sight.

***Turn the presentation back to the Director for wrap-up and group discussion.***